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SECURITY INFORMATION

APPENDIX

1. Soviet Bloc Shipping Capabilities.

The Soviet Bloc depends to an important extent upon non-Bloc countries for its ocean transportation facilities. At the beginning of 1951, approximately 65 percent of the value of Soviet Bloc imports and about 57 percent of the value of exports in trade with countries outside the Bloc were being carried by ocean transport. The majority of this trade was carried by vessels owned by non-Soviet Bloc nations. For example, an analysis of shipping between Soviet and Satellite ports and between those ports and non-Orbit ports in November 1950 reveals that nearly 90 percent of the vessels involved were of non-Bloc registry.

The estimated annual non-Bloc construction and repair of ships for Soviet Bloc account greatly exceed estimated current civilian shipbuilding and re-fitting in the Bloc. Present ship construction and repair activities for the Soviet Bloc in Western European yards will add about 7 percent to the total estimated USSR merchant tonnage. This utilization of Western European shipbuilding and repair facilities enables the Bloc countries to divert their own similar industrial resources to other essential civilian and military production, including construction of units for the critically important inland-waterways fleet and of naval units. Bloc efforts to place new orders for large ocean-going vessels in non-Orbit yards have not, however, been successful. Soviet Bloc bidding practices, particularly those of Polish negotiators, in recent ship and tanker purchases from Western sources reflect the importance to the Bloc of the ship procurement program.

The Soviet Bloc receives the greatest contribution to its shipping capabilities from non-Orbit chartering, which in the peak months of each year adds an estimated 500,000 tons to the merchant fleets of the Bloc. The use by Poland of chartered non-Orbit vessels in non-embargoed geographical areas and commodity trades has released strategically important Polish-flag merchant tonnage for Far East runs.

2. Relative Strategic Importance of Vessels.

The relationship between the lower limits of tonnage and the strategic value of ships varies according to the category of vessels in question. In the case of naval craft and ships which can be readily adapted to naval duty (fishing boats, tugs, wooden trawlers, etc.), the lower limits might, as a practical matter, go down to 100 GRT, although in some instances a limit as low as 20 GRT would seem reasonable. A limit of 100 tons includes ships capable of all-weather duty and operations at considerable distances from home bases. Diesel-powered ships must be rated on a separate basis.

The minimum strategic limit on commercial-type vessels (cargo ships, tankers, ore carriers, etc.) is considerably higher than on naval or naval-type craft. Ocean-going ships under 2,000 GRT generally are useful only in the short trades and for coasting, while ships under 1,000 GRT usually are not considered of importance in ocean-going fleets. Nevertheless, vessels

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of 300 or 400 tons may have some limited strategic value. In view of the vast supply problems of modern total warfare, merchant vessels have become more important than many military items. It is very difficult, however, to devise enforceable controls on the use of very small vessels, particularly since the large number of shipyards capable of producing these, the relatively short construction time required, and the small volume of materials employed would defy surveillance. For example, the employment of junks and sampans in clandestine trade in violation of the Hong Kong export controls could not be prevented by control of construction and repair.

Tankers of small size (under 1,000 GRT) are extremely useful. The minimum tanker limit might be set as close as possible to 500 GRT, although agreement on that limit as such may be difficult in COMCOM.

A limit of 2,000 horsepower on icebreakers would constitute an effective lower strategic limit. Important icebreakers usually exceed that limit. One of the smallest icebreakers in the Soviet ocean-going fleet is rated at 6,000 horsepower. The chief use of icebreakers in the 1,500 to 2,000-horsepower class (800 to 1,000 tons displacement) is in harbor clearance early in the winter before ice becomes a serious problem. Small icebreakers of this class have potential value as salvage and towing vessels. Provision of exceptions for icebreakers even up to 3,000 horsepower as a bargaining feature would afford no material strategic advantage to Soviet maritime capabilities.

3. Application of Controls to Ship Sales and Repairs.

The Netherlands' scheme of having shipyards directly administer COMCOM controls on ship sales and repairs seems to avoid many of the delays and other disadvantages, from the shipbuilder's point of view, of the licensing system applied in other areas, but expediting in this case may mean an invitation to further violations. It would be enlightening to have the supporting reasons set forth by the Dutch for their scheme.

The reconstruction of salvaged German ships is now a major task. Some of these can be used as troopships of considerable capacity. Belgian shipyards and a few Netherlands and Western German yards have engaged in an unbroken series of refits for Bloc accounts. In Italy, the Netherlands, and Denmark, Soviet and Polish ships take advantage of every opportunity for overhaul, often absorbing available facilities regardless of cost.

A careful redefinition of "voyage repairs" is called for, with a corollary provision that in the event of major breakdowns with consequent need of new installations (particularly of machinery and security equipment), the materials be supplied by Bloc countries. Repairs made within the narrowest interpretation

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of the requirements of international law and the exhaustion of all possibilities to substitute items of lesser strategic importance would be in accord with the principle of tighter controls. From available evidence it may be well to anticipate subterfuge in the case of vessels which call in non-Orbit yards for frequent repairs of the same parts of their equipment. Similarly, exchange and coordination of information on the similarity of repairs on numerous Bloc vessels in the yards of different countries might indicate inadvertent assistance to Bloc ship modification or reconversion programs.

The "prior commitment" phase of the gentlemen's agreements should be continued only for specific official commitments. But care should be exercised in including shipping items remaining on International List II in quid pro quo dealings for materials needed for the basic economy or strategic purposes of participating countries. Now compensatory Western resources for such materials may now become available through the expanded US mutual security program.

The UK proposal to embargo sales of vessels formerly subject to gentlemen's agreements under International List II constitutes a realistic step against well-known quantitative control evasions. As an example of such evasion, the French government recently made allowance for the state of disrepair of a vessel which exceeded in speed and tonnage the International List II limits in order to bring this vessel within the provision for the gentlemen's agreements. A supporting reason for the decision was that required coal shipments were to be the quid pro quo expected under the terms of a renewed Franco-Polish trade agreement.

#### 4. Extent and Integration of National Charter Regulations.

From the strategic point of view, ship sale and repair controls without effective chartering controls are inadequate restrictions on the continued increase of Soviet shipping capabilities. The relative effectiveness of current US regulations may be used as a criterion for negotiating an integrated system of limited national charter controls. Control over the sale and charter of US ships to aliens is made possible through the Shipping Act of 1916 and regulations promulgated thereunder. Section 9 of the Act provides for control over the sale and charter to aliens of US-documented ships, and Section 37 establishes control over ships of US ownership, regardless of documentation, in a period of national emergency or war. The wording of the General Order 59 (revised), issued under Sections 9 and 37 of the Shipping Act, suggests for COCOM charter controls an acceptable minimum of no bareboat charters and a 6-month limit on voyage and time charters. Ship cargo reports from Belgian ports, East German Baltic ports, and Trieste substantiate the US view on the inadvisability of continued long-term Bloc chartering of vessels of the participating countries.

In order to make COCOM charter controls effective, it may also be necessary for the participating countries to consider adoption of counterparts to the

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US T-1 and possibly T-2 orders. It must be recalled, however, that T-1 is not a complete embargo on shipping and provides for the continuance of some trade with countries against which trade restrictions are employed. The T-2-type order can be employed as a complete embargo on shipping.

The effectiveness of chartering controls depends almost entirely upon the nature of their application. In most instances, charters for short trades would receive a generous exemption from controls. Furthermore, if controls on the transportation of embargoed goods become effective, charter controls could be less stringent. Ships would not need to be frozen on their current registers by international action, with all the attendant difficulties, but participating countries could tighten transfer-of-registry legislation to avoid escapes from control. The current action of the Panamanian Government supporting US charter controls demonstrates the feasibility of an integrated charter control system.

#### 5. Feasibility of Transportation Controls.

Although the chief link between commodities and markets is transportation, and the interdiction of the physical movement of embargoed commodities is a basic regulatory measure, COCOM controls at present are weakest in the shipping field. The problem of controlling transport under present circumstances can be dealt with by setting up prohibited areas for ships of cooperating countries and by strengthening bunkering controls applied to both friendly and unfriendly shipping.

The core of an efficient COCOM controls program for the transport of cargoes might be a Selected Destinations Clearance Plan of the type which consolidated the British World War II navicert system and the US export license procedure after 1 April 1942. The Ship Warrant legislation now pending before Congress might be utilized for US participation in such a program, although the validity of important parts of the British navicert legislation seems to have expired.

Preliminary investigation of the vast misuse of certain European transit routes and of the role of the various free ports (including the New York Foreign Trade Zone) in violation of the intent of COCOM embargoes by non-participating countries reemphasizes the need for over-all transportation controls, even if limited at first to a partial approach such as improved manifesting procedures.

The ocean contract procedure used by most shipping companies today offers both the greatest problem and the best area of regulation for more effective bunker controls, short of outright prohibitions. Actual bunker controls would include mandatory governmental review of nominations, world-wide or regionally.

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This must be coupled with itinerary checks insofar as such checks can be effective. A second control measure is to prevent excess bunkering as recently practiced in Djibuti. Finally, a measure which may involve naval interception is the prevention of purchasing ashore of drummed fuel and lightering it to the ship.

Potential repercussions of tightened controls would not be confined to the shipping field. Consideration of tightened shipping controls must anticipate demands for compensation for the loss of important revenue which might force adoption of preclusive chartering procedures. Important financial and balance-of-payments considerations also are likely to arise. In pre-World War II days, the bulk of the world's tramp chartering was fixed on the Baltic Exchange in sterling. In those days, freight rates for regular lines were generally fixed in sterling or US dollars. While this principle of rate-making has been retained, exchange controls, bilateral clearings, uneven devaluations of currencies, and the scarcity of dollars are now the order of the day. Loss of sources of hard currency and gold and disruption of present tenuous commercial relations with Bloc countries by suddenly increased dollar demands might be induced inter alia by preclusive charter practices.

In the case of the Netherlands, it has been stated that "the transit trade is the lifeblood of the Netherlands." In countries in which shipbuilding is an important industry, increased controls of sales and repair may result in additional unemployment which could be exploited by Communist labor agitators. The effects of the charter and transportation controls, which are particularly needed now, might be more widely distributed over several countries, and the direct effects of the controls might affect fewer people in higher income levels.

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